

**BURLINGTON-EDISON SCHOOL DISTRICT No. 100**  
**Skagit County, Washington**  
**September 1, 1992 Through August 31, 1993**

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**Schedule Of Findings**

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1. The District Should Improve Controls Over Its Soft Drink Vending Machines, Inventories, And Candy Sales

During the course of our audit, the district identified an estimated loss of revenue in the Associated Student Body (ASB) Fund of \$2,861. The loss was estimated by calculating expected revenue based on soda pop and candy purchases, marked up to retail value, subtracting the retail value of inventory on hand, and comparing the amount to the amount actually received. Responsibility for the loss could not be fixed to any specific individual because of the lack of internal controls over inventory and cash receipts. Additionally, it was not possible for the district to determine whether these losses were from inventory, cash receipts, or a combination of both inventory and cash receipts. There were no federal funds involved in the above losses.

The American Institute of Certified Public Accountants (AICPA) in its *Codification of Statements on Auditing Standards*, AU Section 319.69, Appendix D, states in part:

Establishing and maintaining an internal control structure is an important management responsibility. In establishing specific internal control structure policies and procedures concerning an entity's ability to record, process, summarize, and report financial data that is consistent with management's assertions embodied in the financial statements, some of the specific objectives management may wish to consider include the following:

Transactions are recorded as necessary . . . to maintain accountability for assets.

Access to assets is permitted only in accordance with management's authorization.

The recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

The district identified the following weaknesses in inventory and cash controls:

- a. Exposure to soft drink machine cash by students without adult supervision and by soft drink vendor.
- b. Lack of accountability over keys to soft drink machines.
- c. Adequacy of physical security of soft drink inventory.

- d. Inability to distinguish between soft drink receipts and candy receipts.

In addition, during our review of the ASB we noted that reconciliations of cash received to expected revenues were not being made.

As a result of these weaknesses cited above, errors or irregularities occurred and were not detected in a timely manner.

District officials have suggested the following measures to strengthen internal controls:

- a. Change the locks on all soft drink machines.
- b. Deposit soft drink receipts into a locked bank bag and restrict access from students.
- c. Examine the selection process of students who will work for the school store.
- d. Establish a means to identify receipts from candy sales from receipts from soft drink sales.

We recommend that the district follow their suggested procedures to strengthen internal controls, and in addition, perform reconciliations of expected revenues to actual cash received.

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**Schedule Of Federal Findings**

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1. Payroll Charges Should Be Made In Accordance With Authorization And With Federal Regulations

During our audit of the Chapter 1 Program, we noted instances of inadequate time and effort documentation for employees working under the Chapter 1 Program. The percentages used to allocate the Chapter 1 payroll charges could not be readily supported. In addition, not all employees and their supervisors signed time and effort records on a contemporaneous basis.

Consequently, our analysis projected that \$1,266 of payroll costs were undercharged to Chapter 1. Our audit documented three instances of payroll charges which were inadequately supported. Of the three, one employee was overcharged to the Chapter 1 Program and two employees were undercharged. Our projection represents the population of 12 nonsubstitute Chapter 1 employees who worked under more than one program, taking into consideration undercharges and overcharges noted.

Our testing of the payroll system affecting all programs disclosed errors in the allocation to program expenditure codes. The district's policy is to allocate payroll based on a contract summary prepared by the personnel department. We noted four instances out of sixteen payroll transactions tested where the actual payroll charged did not agree to the contract summary. However, no documentation could be located to support these differences. These errors occurred due to miscommunication or noncommunication between the payroll, personnel, and special services departments.

The U.S. Office of Management and Budget (OMB) Circular A-87 *Cost Principles Applicable to Grants and Contracts* establishes standards for documentation and allowability of costs charged to federal grant programs. Among these standards are:

- a. Amounts charged to grant programs for personal services will be based on payrolls supported by time and attendance or equivalent records for individual employees.
- b. Salaries and wages of employees chargeable to more than one cost objective must be supported by time distribution records.

The Superintendent of Public Instruction's Bulletin No. 59-92 defines "employee time and attendance report" on page 5, No. 12, as:

... a report prepared and submitted for every pay period signed by the employee and the employee's immediate supervisor that reports actual compensable time, time distribution, and compensable actual attendance. Such time and attendance report shall be supported by contemporaneous time, time distribution, and employee attendance

records.

We recommend that the district maintain time and effort documentation that supports all charges to federal programs. We further recommend that the district document adjustments for payroll allocations that differ from the original contract summary allocation.